

STATE BUDGET AND CONTROL BOARD
MEETING OF June 17, 2008

BLUE AGENDA
ITEM NUMBER 2

AGENCY: State Treasurer's Office

SUBJECT: Bond Counsel Rotation

For many years the Board has followed a policy of rotation of law firms to serve as general obligation bond counsel to the State, its agencies, and institutions. The current policy spans decades and appears to have its genesis as early as 1992. The assignments made under the latest rotation were adopted by the Board in July 1998 and will terminate on June 30, 2008. The State Treasurer's Office believes that it is appropriate to consider the policy of rotation of these engagements concurrent with termination of the present assignments.

The Board is asked to authorize the State Treasurer to undertake a study of best practices for the selection and engagement of bond counsel; determine the scope of the study, including among others without limitation the assignment of counsel for general obligation, revenue and other securitized debt; determine best practices for bond counsel compensation; develop requests for qualifications or requests for proposals with emphasis on qualifications and value; solicit qualified firms for response to any requests for qualifications or requests for proposals; provide periodic reports to the Board for its consideration and a final report for its approval; and extend the current firm engaged under the present rotation for a transition period not to exceed one year.

BOARD ACTION REQUESTED:

Authorize the State Treasurer to undertake a study of best practices for the selection and engagement of bond counsel; determine the scope of the study, including among others without limitation the assignment of counsel for general obligation, revenue and other securitized debt; determine best practices for bond counsel compensation; develop requests for qualifications or requests for proposals with emphasis on qualifications and value; solicit qualified firms for response to any requests for qualifications or requests for proposals; provide periodic reports to the Board for its consideration and a final report for its approval; and extend the current firm engaged under the present rotation for a transition period not to exceed one year.

ATTACHMENTS:

Chellis 6/5/08 letter with attachment



STATE OF SOUTH CAROLINA
OFFICE OF THE STATE TREASURER
CONVERSE A. CHELLIS III, CPA

June 5, 2008

Mr. Delbert H. Singleton, Jr.
Executive Secretary
South Carolina State Budget and Control Board
Wade Hampton Office Building, 6th Floor
Columbia, South Carolina 29201

Dear Delbert:

Please find attached a letter addressed to the members of the Board concerning engagement and compensation of bond counsel. We would greatly appreciate your adding this item to Agenda for the Board's June 17, 2008 meeting. The Board will be asked to authorize the State Treasurer to undertake a study of best practices for the selection and engagement of bond counsel; determine the scope of the study, including among others without limitation the assignment of counsel for general obligation, revenue and other securitized debt; determine best practices for bond counsel compensation; develop requests for qualifications or requests for proposals with emphasis on qualifications and value; solicit qualified firms for response to any requests for qualifications or requests for proposals; provide periodic reports to the Board for its consideration and a final report for its approval; and extend the current firm engaged under the present rotation for a transition period not to exceed one year.

Thank you for your assistance in this matter.

Very truly yours,

A handwritten signature in black ink, reading "Converse A. Chellis III" with a stylized flourish at the end.

Converse A. Chellis, III, CPA
State Treasurer



STATE OF SOUTH CAROLINA
OFFICE OF THE STATE TREASURER
CONVERSE A. CHELLIS III, CPA

June 5, 2008

To the members of the South Carolina
State Budget and Control Board

Fellow Members of the Board:

For many years the Board has followed a policy of rotation of law firms to serve as general obligation bond counsel to the State, its agencies, and institutions. The current policy spans decades, and appears to have its genesis as early as 1992.

The assignments made under the latest rotation, adopted by the board in July, 1998, will terminate June 30, 2008. We believe that it is appropriate to consider the policy of rotation of these engagements concurrent with termination of the present assignments. The current policy of rotation focuses on equitable distribution under a compensation structure fixed by the Board. Rather than continue the current policy of rotation by re-engaging the firms following the historical order of assignment, we recommend that the Board consider development of a plan that focuses primarily on economic and expert value rather than on equitable distribution for the following reasons.

The present process of engagement does not promote continuity and other benefits to the State that a longer period of engagement would achieve, as it provides for a two-year assignment every eight years, as presently structured. Additionally, as new firms have been approved for inclusion in the rotation, those firms have been added to the end of the rotation, extending the re-engagement period. Hence, there is an inherent period of initiation and adjustment that must occur every two years whenever a firm takes their turn, and that period of adjustment may take as long as a year to eighteen months, depending on the numbers and types of transactions that the State undertakes. By the time this period of acclimation has occurred, the firm may be entering the final months of its engagement. Furthermore, the lapses of time between engagements further exacerbate the issues that attend re-acclimation. These dynamics create inherent inefficiencies, not only for the State's employees, but for the firms engaged to the assignment.

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The compensation structure was adopted as early as 1987, and has not been re-evaluated since 1995, at which time the compensation structure was reduced by 5%. Moreover, the compensation structure is determined by the size of the transaction, without regard to complexity or time requirements. This structure would be more appropriate in transactions that are more risk-intensive; however, the State's transactions have generally low risk, with generally predictable levels of time and complexity. Accordingly, the compensation structure in place today causes wide fluctuations (and in some cases disparities) in terms of value and compensation.

For these reasons, we recommend that Board authorize the State Treasurer to

1. Undertake a study of best practices for the selection and engagement of bond counsel;
2. Determine the scope of the study, including among others without limitation the assignment of counsel for general obligation, revenue and other securitized debt;
3. Determine best practices for bond counsel compensation;
4. Develop requests for qualifications or requests for proposals with emphasis on qualifications and value;
5. Solicit qualified firms for response to any requests for qualifications or requests for proposals;
6. Provide periodic reports to the Board for its consideration and a final report for its approval; and
7. Extend the current firm engaged under the present rotation for a transition period not to exceed one year.

Thank you for considering this request.

Very truly yours,

A handwritten signature in black ink, appearing to read "Converse A. Chellis, III", followed by a horizontal line.

Converse A. Chellis, III, CPA
State Treasurer